

February 21, 2006

Mary Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, Second Floor
Boston, MA 02110

RE: Petition of New England Gas Company for Approval of a Change to Gas Procurement Practices, DTE 06-3

Dear Secretary Cottrell:

On January 3, 2006 the New England Gas Company (the "Company") filed a request for the Department of Telecommunications and Energy (the "Department") to approve changes to the gas commodity purchasing practices the Company uses in its Massachusetts operations in Fall River and North Attleboro (the "Filing"). *See* New England Gas Company Filing, Jan. 3, 2006, at 1. The Company currently purchases approximately 28 percent of peak season requirements in equal monthly increments over a seven month period for storage at its facilities. *Id.* The Company purchases most of the remaining peak supply on a "first-of-the-month" or "spot" basis during the peak months. *Id.* Market volatility greatly affects the price that the Company pays for peak season requirements causing, in turn, volatility in the Company's Cost of Gas Adjustment factor and customer's gas costs. *Id.*

The Filing outlines a proposal to change the Company's current procurement practices by moving to a forward procurement strategy that would mitigate volatility in the cost for peak season requirements and consequently in the Cost of Gas Adjustment factor. The proposed forward procurement strategy will achieve mitigation of volatility by distributing 50 percent of the Company's monthly requirements over a twenty month period. *Id.* at 2. The following example documented in the Filing illustrates the operation of the proposed forward procurement strategy. In the example, the Company assumes that the gas supply requirements for the month of July 2007 equals 300,000; therefore, fifty percent of the gas supply requirements equal 150,000. To procure the 150,000 under the proposal, the Company would purchase one-twentieth of the 150,000 or 7,500 each month beginning in July 2005 and ending in February 2007, four months prior to July 2007.

The Company supports its proposed forward procurement strategy by pointing to the success of a similar procurement structure employed at its facility in Rhode Island that stabilized rates for its Rhode Island customers. *Id.* at 2. The Company plans to implement the proposed forward procurement purchasing program through physical purchases of gas that would lock in the price at the time of purchase. *Id.* at 4. If the Department approves the proposal the Company will immediately begin an accelerated purchasing regime. Customers would realize the benefit of mitigation of price volatility offered by the program in twenty-four months after the Department's approval. Under the accelerated purchasing regime, the Company would purchase more than one-twentieth of each month's supply requirement and make a single purchase of an agreed-to amount to accelerate the benefits of the plan sooner. *Id.* at 3.

The Attorney General supports the Company's effort to mitigate volatility of its customers' gas costs. The Attorney General supported similar efforts by local distribution companies to implement forward procurement practices and particularly supports practices that employ physical purchases. *See Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company and NSTAR Gas Company*, D.T.E. 05-85, Settlement Agreement, at 14 (2006). Such practices ensure that local distribution companies do not attempt to pass on additional costs or risks to customers associated with reliance on derivative or other financial hedges.

Before the Department approves the Company's proposal, it should review the proposal carefully to determine whether the planned purchases of one-twentieth of a month for companies the size of Fall River and North Attleboro will produce the most cost efficient levels of procurement. The Company recently announced the sale of its Rhode Island affiliate, heightening the importance of careful review of the proposal. The sale may result in the loss of purchasing synergies given the significantly larger Rhode Island operation. The Department should analyze the impact that the sale may have on the proposal.

If the Department approves the proposal, the Department should require the Company to keep comparison data for review of the forward procurement program's success in mitigating price volatility. To ensure the feasibility of such a review, the Department should order the Company to track the costs that the Company would have paid under the current procurement program and the actual costs paid under the forward procurement program.

The Department should approve the forward procurement program if it determines that it produces the most cost efficient levels of procurement. A cost efficient forward procurement program should benefit consumers by mitigating volatility in natural gas prices. The Company, however, should track pricing data to document program efficiency and success in mitigating price volatility.

Very truly yours,

Jamie M. Tosches, Esq.